CUSHMAN & WAKEFIELD

OUTTHINK

Executive Summary

MIDPOINT 2025

Uncertainty Looms

ECONOMIC & CRE OUTLOOK

UNITED STATES

Note from Chief Economist

Uncertainty Looms

Since the start of President Trump's second term, policy uncertainty—particularly around trade—has risen sharply, reaching levels not seen in the post-World War II era. Not all forms of policy disruption carry the same economic weight, but elevated tariffs and the lack of clarity on the future direction of trade negotiations have emerged as top concerns, as reflected in recent sentiment surveys of both consumers and business leaders. That said, early indicators from the administration's first 100 days (and more so in the weeks that followed) suggest that the pace of trade escalation may be leveling off. Our base case assumes that the trade war has essentially peaked, and tariffs will be gradually reduced from this point forward as trade deals are struck. Even so, we do not expect tariffs to return to pre-disruption levels. In the near term, higher trade frictions will continue to shape the macroeconomic narrative—and by extension, will have implications for business investment decisions, consumer spending patterns, supply chain strategies, and select corners of commercial real estate.

Economy & CRE Holding Up

The starting point for commercial real estate matters, and the sector entered 2025 on relatively solid ground—with certain segments even gaining momentum. Multifamily, for instance, continues to benefit from strong demand dynamics. Favorable demographics and a resilient labor market suggest that this strength should carry forward in the quarters ahead. In the office and capital markets sectors—arguably the most challenged in recent years—there are now multiple green shoots signaling the tide is finally turning. That said, the details matter. The industrial and retail sectors are the most directly exposed to higher tariffs, but even within these sectors, nuance is key. Retail remains structurally undersupplied and the once overheated industrial pipeline is cooling at a healthy pace. As of early June 2025, CRE has proven capable of absorbing economic volatility, and we expect this resiliency to continue.

Hints of the "Stag," and the "Flation"

The rearview mirror is helpful because it gives a sense of position and momentum. However, the outlook ahead—especially for the next six months—is one that is more cautious and subdued. The soft data on the economy (e.g., consumer sentiment surveys, CEO outlooks, inflation expectation measures) are already showing strong reactions to trade policy, with hints of "stag" and "flation" (as Jerome Powell famously put it). However, the hard data (e.g., employment figures, consumer spending) continue to show resilience. The current weakness in soft data suggests that economic growth is likely to slow meaningfully in the coming quarters (but still avoid recession) before starting to accelerate sequentially into 2026. The trade war will be inflationary to the U.S. economy, in our view, but the additional upward pressure from tariffs will eventually abate, leading to a more attractive combination of faster growth, decelerating inflation and likely more accommodative monetary policy as 2026 unfolds. The policy agenda also has the potential to shift toward more growth-friendly items such as tax cuts and deregulation.

CRE Poised to Navigate Tariff Chop

The near-term outlook for CRE has been slightly downgraded. However, if the economy follows the path outlined in this report, then we think that the leasing fundamentals will generally hold up, keeping any marginal increase in vacancy capped. Further contracting development pipelines will also set the stage for stronger NOI growth in 2026 and 2027. While we anticipate a return to monetary policy easing by the end of 2025 into 2026, we firmly believe that the "higher-for-longer" approach is not just a temporary trend—it's here to stay. Capital markets have largely adjusted to this reality, but need clarity on the economic outlook more than anything else before a sturdier recovery takes hold. In 2025, we expect hiccups as bouts of volatility enter the market, but volumes and pricing should continue to incrementally move higher over the next 12 months as more conviction enters the investor psyche. CRE presents an attractive investment thesis: real assets that produce income, many of which have secular themes underpinning long-term fundamentals.

This year will be anything but boring. Uncertainty is high. Many scenarios could play out. We believe our mid-year outlook is based on reasonable assumptions and gives a starting point for how to strategize in the quarters and years ahead.

We hope you find Midpoint 2025 both insightful and actionable. If you're interested in a deeper discussion around Cushman & Wakefield's forecasts or how evolving market dynamics may impact your strategy, we welcome the opportunity to connect.

Kevin Thorpe
Chief Economist

Kevin Thorpe

Economy

Short-term Stagflation
Given the hard shift in economic policies and the heightened level of uncertainty—particularly as it relates to tariffs—our base case calls for short-term stagflation for the remainder of 2025, meaning slower economic growth and accelerating inflation.

Labor Markets to Get Dicey
The uncertainty will begin to take its toll on consumer spending and business investment. Hiring will begin to slow in Q2 and more so in Q3. We are already seeing signs of slowing job growth and rising layoff announcements.

Interest Rate Volatility, but the Fed Will Cut
The Federal Reserve will be walking a tightrope if both sides of the dual mandate—maintaining maximum employment and stable prices—are in tension as expected in our base case. We believe the Fed will increasingly focus on the employment side of their mandate and, as that weakens, resume cutting rates in H2 2025. The 10-yr Treasury yield will hover in the 4.0-4.5% range—consistent with long-run equilibrium, albeit with bouts of volatility along the way.

2026: Rebound Most Likely Scenario
A script is forming where the U.S. economy could begin to rebound more strongly in 2026. This outlook hinges on several key factors: the Fed cutting interest rates, ongoing trade negotiations lowering tariff rates, and short-term boosts from tax reforms and deregulation. Real GDP is expected to gradually accelerate through next year, with growth projected to surpass an annualized rate of 2.0% in H2 2026.

C&W Baseline

	2024	2025F	2026F	2027F
Real GDP (annual avg. %)	2.8	1.1	1.2	2.3
Job Growth (Q4/Q4, ths.)	1.9	0.6	-0.2	0.7
CPI Inflation (Q4/Q4, %)	2.7	3.7	2.2	1.7
Fed Funds Rate (YE, lower bound %)	4.25	3.75	3.00	2.75
10-Yr Treasury Yield (YE, %)	4.3	4.3	4.3	4.3

Lots of Scenarios Still in Play

SCENARIO 1 — 15% Probability
Upside

- Economy continues to grow at a healthy clip, registering 1.9% GDP growth this year and 2.3% in 2026.
- Inflation follows a similar trajectory to the baseline, but about 20bps higher.
- The FOMC lowers fed funds rate through 2026, despite sticky inflation and above trend economic growth.
- The job market remains solid through Q3 2025 resulting in annual growth of 1.6 million net payroll gains.
- The 10-year yield averages 4.4% over 2025 and 2026, slightly higher than in the baseline, given stronger underlying growth.
- The effective tariff rate peaks in Q2 2025 at 15.5% but recedes to 5.0% by Q4 2025.

SCENARIO 2 — 50% Probability
Baseline

- Economy slows through H2 2025 but avoids a recession; GDP is slightly positive this year and accelerates in 2026.
- Inflation remains above the Fed’s target, with core CPI of 3.7% this year (Q4/Q4) before falling to 2.2% in 2026.
- A softening economy allows for two 25bps rate cuts in September and December, followed by three rate cuts in 2026.
- Job gains total 600K this year but drops by 200K in 2026. The unemployment rate peaks out at 5.1%.
- The 10-year Treasury averages 4.3% this year and next.
- The effective tariff rate peaks at 17.5% in Q2 and gradually declines to 5.0% by mid-2026.

SCENARIO 3 — 25% Probability
Near-Term Recession

- Tariffs, rising inflation, deportations, political tensions, elevated interest rates, and reduced credit availability cause the economy to fall into a mild recession starting in the Q2 2025. The recession lasts for three quarters, and the peak-to-trough decline is 1.2%.
- Rising inflation causes the Fed to raise the fed funds rate. It resumes easing in the Q3 2025 as the recession persists and the fed funds rate drops below the baseline at that point.
- Job losses total 2.7M from Q2 2025 to Q1 2027. The unemployment rate peaks at 7.1% in Q1 2026.
- The 10-year Treasury drops to 3.6% from Q4 2025 to Q1 2026 before trending upwards roughly 10bps per quarter through H2 2027.
- The effective tariff rate peaks at 23.7%

SCENARIO 4 — 10% Probability
Stagflation

- Inflation reaccelerates as the economy weakens. The Fed is at first more concerned about the weakening economy and fails to address inflation. In 2026 it responds by sharply raising fed funds, causing the economy to fall into a deep recession after mid-2026.
- Inflation reaches 5.0% (Q4/Q4) in 2025 and remains elevated at 4.6% in 2026. It peaks in Q1 2026 at 5.9%
- The FOMC cuts the fed funds rate to 3.8% in Q3 2025 but is forced to raise it to 5.8% in Q2 2026.
- Job losses are greater than our baseline in 2025. There is job growth in 2026, but 2.3M jobs are lost in 2027.
- 10-year peaks at 7.1% at Q2 2026.
- Peak tariff rate is 27.6% from Q2 2025 through Q4 2026.

Source: Cushman & Wakefield Research Moody’s Analytics

Capital Markets

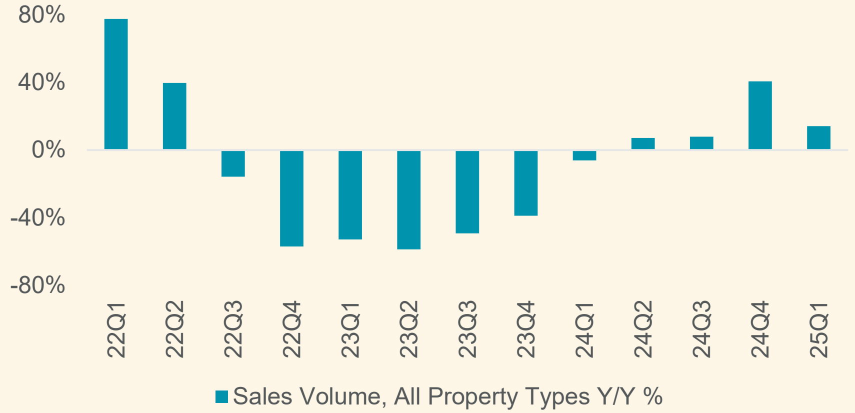
Base Rate Uncertainty
Our base case expects two rate cuts by the Federal Reserve this year, but probabilities for fewer or more rate cuts are equally weighted by market participants, underscoring uncertainty around the economic outlook. The 10-year Treasury has also experienced volatility, but we expect it to hover in the 4.0-4.5% range throughout the year.

Buying Conditions Improve
Cap rate expansion and stabilizing NOI growth are creating more favorable conditions for buyers, signaling a potential turning point in valuations. Trailing 12-month CRE transaction volumes grew 15% in Q1, with institutional capital and portfolio deals gaining momentum.

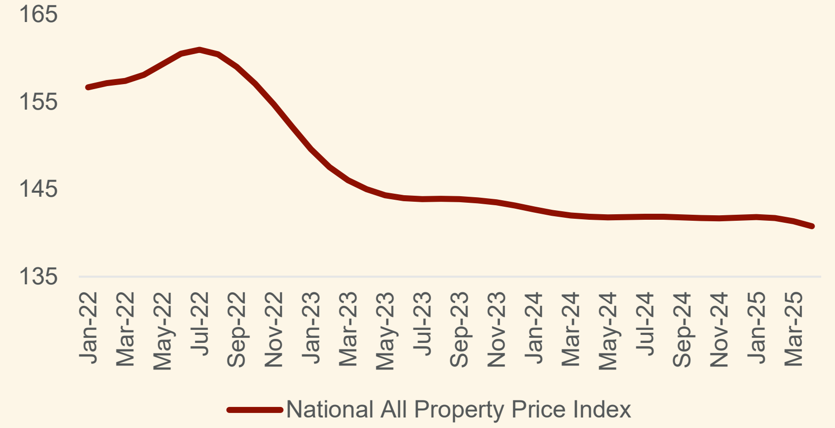
Debt Leads Equity
Despite being subject to base rate volatility and risk spread expansion (post April 2), debt costs are down 35–50 bps from 2023 peaks, and lender diversity is increasing, with debt funds and CMBS gaining share and banks becoming more active. Financing is available, especially for high quality assets with durable income streams.

CRE Advantage
During periods of uncertainty, real (or hard) assets are favored and CRE stands to benefit from this dynamic in the immediate term. Net operating income growth is expected to modestly pick up in 2025 versus 2024 as fundamentals in most asset types and markets stabilize, particularly as supply pipelines diminish and expense pressures from recent years moderate. Although cap rate compression will be limited by higher base rates throughout the forecast horizon, values will be supported and lifted from improving asset performance. This is a shift from the prior cycle when investors could rely on more significant cap rate compression dynamics to drive returns.

U.S. Sales Volume Turning Up



Property Values Stabizing



Source: MSCI Real Capital Analytics

Industrial

Net Absorption Slowing Sharply
Demand remains cyclically challenged, following multiple years of robust growth. Demand for industrial space in 2024 was one-fifth of what it was in 2021, and the weaker demand has continued into 2025. That said, the sector is still absorbing space, it's just gotten slower and will likely remain that way until 2026 when the economy is expected to reaccelerate.

Vacancy Continues to Trend Higher
Industrial vacancy continues to move higher and will likely continue in that direction as the sector works through the record construction boom over the last few years. However, as we look further ahead, supply constraints (i.e., high construction and labor costs) will limit new construction. After this current wave of supply delivers, there isn't much behind it, setting the stage for stronger occupancy gains in 2026-27.

Rent Growth to Soften
As vacancy has risen, especially in markets where that has been demand-led (versus due to new construction), rent growth has abated and in some cases declined. The outlook calls for a roughly flat growth rate over the next few years, before accelerating toward the long-run equilibrium of about 3.5% near the end of the decade.

Global Trade Poses Downside Risk
Imports surged during the first several months of 2025 as companies sought front-running tariffs that have been threatened or already gone into effect. Even if tariffs are paused or scaled back, as has been the case since early April, reduced trade later in 2025 along with overarching trade policy uncertainty will challenge industrial demand in the near term.

Longer Term Engines Remain Strong
Rightsizing among e-commerce providers presented headwinds in 2023 and 2024, but that appears to be coming to an end. Additionally, a wave of manufacturing activity over the past several years is creating long-run foundation for both production facilities and warehousing.

C&W Baseline

	2024	2025F	2026F	2027F
Net Absorption (msf)	141.8	73.6	127.4	247.4
Vacancy	6.7%	7.5%	7.8%	7.5%
New Deliveries (msf)	430.0	233.4	186.4	216.4
Effective Rent Growth Y/Y%	4.3%	1.6%	-0.6%	0.3%

Multifamily

Structural Tailwinds Become Less Powerful
Household formation is poised to pull back in the next couple years as population growth among the foreign-born workforce scales back. That said, multifamily is well positioned to benefit from challenges in the homebuying market, as renting will remain economically more favorable than purchasing housing due to high mortgage rates.

Demand Reigns Supreme
Robust demand remains a consistent theme for the multifamily segment as 102,000 units were absorbed in Q1 2025, building on momentum from 2024. While demand is set to cool amid a deceleration in household formation and job growth, net absorption in our baseline forecast averages 257,000 per year from 2025-2027, squarely in line with the 2015-2019 average.

Urban Living
Whie Sunbelt markets continue to lead migration trends, demographics are incrementally shifting in favor of gateway markets and urban areas. All seven gateway markets experienced accelerating population growth in 2024, continuing a turnaround from pandemic-era outflows. More broadly, population growth in urban core areas has fully returned beyond its 2010-2019 average, suggesting strong demand for urban living. Incrementally more in-office work will also favor downtown apartment demand.

A Safe Bet
Multifamily demand has shown remarkable resiliency throughout economic cycles. Over the past 25 years, including three recessions, there has only been one quarter of negative net absorption. The timing of the construction cycle favors multifamily fundamentals as well; new construction is on pace to drop to 2021 levels this year. Supply-side pressure will continue to abate for the next two years; as of Q1, the construction pipeline was down 34% from a year earlier.

C&W Baseline

	2024	2025F	2026F	2027F
Net Absorption (ths. units)	423.3	261.6	254.7	255.3
Vacancy	9.1%	9.3%	8.8%	8.2%
New Deliveries (ths. units)	543.1	323.4	196.0	196.9
Rent Growth, Y/Y %	0.7%	0.4%	1.9%	3.2%

Office

Return to Office is Gaining Momentum
Physical office occupancies have been stable for about three years, but company announcements show that employers are directionally moving back toward an office-centric approach.

Demand for Office Space Improving
Net absorption is on the rise. While still negative, nearly half of the markets we track reported positive absorption in Q1 2025. Moreover, demand is improving across almost all markets, bringing aggregate absorption closer to a positive turning point.

Sublease Space has Peaked and is Trending Lower
Sublease space is down 9.5% on a year-over year (YOY) basis and has declined to the lowest level in over two years. Historically, the peak in sublease space has been a leading indicator for overall market vacancies.

Quality Bias Continues
While top tier assets continue to garner an outsized share of market demand and, in turn, rent premiums and rental appreciation, the reality is that 30% of the Class A market is fully leased as of Q1 2025. Further, another 20% of buildings (4th and 5th deciles) are 90%+ leased.

Trophy Office Shortage Boosts Demand for Alternatives
The demand for trophy office spaces remains strong, but the supply is scarce—and it's going to get even tighter because the office construction pipeline is the lowest it's been since 2011. As a result, demand will likely trickle down to the next best thing. Well-located, newer Class A spaces could emerge as a strong opportunity in this evolving market.

C&W Baseline

	2024	2025F	2026F	2027F
Net Absorption	-50.3	-29.8	-3.8	7.1
Vacancy	20.6%	21.3%	21.5%	21.4%
New Deliveries	33.0	18.5	8.5	5.3
Effective Rent Growth Y/Y%	-4.4%	-1.3%	0.2%	0.7%

Retail

Retail in the Tariff Crosshairs
Retailers will bear the brunt of the direct impact of higher prices stemming from tariffs, with some looking to offset those costs by rightsizing supply chains and real estate portfolios. Profit margins were already pressured heading into 2025, and the additional costs will likely weigh on leasing over the next several quarters.

All Eyes On the Consumer
Indirect impacts of the tariffs will also impact retailers, to the extent consumers pull back on spending amid a weakening economy and inflationary pressure. Personal consumption expenditures remained resilient in the first quarter—rising 2.9% versus a year earlier—but this is partially attributed to purchases of large-ticket items such as automobiles and household durables ahead of tariffs. Going forward, consumer confidence, credit quality and the job market will be key to watch as all have shown vulnerability in recent months.

Limited Availability
Vacancy rates at shopping centers are trending near historic lows with a national average of 5.5% as of Q1 2025, even as recent bankruptcies and closures begin to hit the market. Although store closures have been concentrated within a few big-box retailers, we expect this could spread more broadly until tariff policy becomes clearer. The national vacancy rate is expected to drift higher toward the low-to-mid 6% range over the next several quarters as a result.

Supply Not Moving the Needle
New retail supply has been especially subdued since the pandemic, and just 0.2% of shopping center inventory is currently under construction. Additionally, repurposing of vacant retail boxes will further cap net new supply, placing a ceiling on vacancies and supporting rent growth in high quality locations.

C&W Baseline

	2024	2025F	2026F	2027F
Net Absorption (msf)	2.0	-29.3	6.4	22.4
Vacancy	5.4%	6.2%	6.3%	6.2%
New Deliveries (msf)	9.8	9.5	11.6	16.9
Effective Rent Growth, Y/Y %	2.3%	1.8%	0.1%	0.8%

Alternatives

Data Centers
Power constraints are reshaping development patterns, with emerging markets gaining traction while established hubs still dominate activity.

Hospitality
Group and corporate travel are offsetting softening leisure demand, but international travel faces risks from policy shifts and trade tensions.

Life Sciences
Demand has softened due to VC pullback and regulatory uncertainty, though pharma remains a bright spot with continued space expansion and M&A activity.

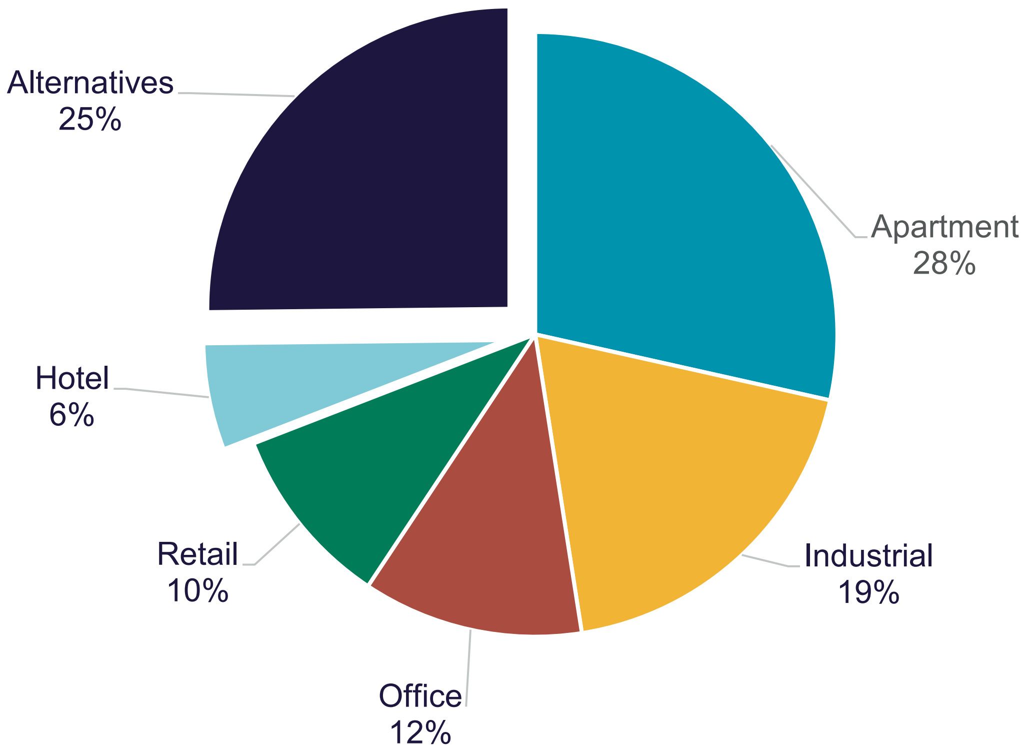
Medical Office
Despite policy and cost headwinds, demand remains solid due to an aging population and limited new supply, requiring creative space solutions from occupiers.

Student Housing
Enrollment growth and counter-cyclical demand during economic downturns make this sector attractive, especially at large, research-focused universities.

Senior Housing
With the 75+ population set to grow over 40% in the next decade, demand is accelerating, pushing occupancy above 89% and driving sector-leading investment returns.

Built-to-rent
Demand remains strong due to unaffordable homeownership and demographic trends, while supply is easing—setting the stage for a healthy recovery in occupancy and rent growth.

Sales Volume
By Sector, 2020-2024



Source: MSCI Real Capital Analytics

What It Means For Occupiers & Investors

Occupiers

- **Maintain a long-term perspective:** Continue to implement workplace strategies with a focus on long-term objectives.
- **Leverage tariffs and uncertainty:** Capitalize on the current environment of tariffs and uncertainty to inform and strengthen your business strategies and negotiations. Leverage terms and credit to your advantage.
- Regardless of tariff impacts, manufacturers must prioritize **diversifying supply chains as a prudent risk** management strategy. Operational risk can be diversified through strategic use of 3PLs.
- Large corporations are likely to capture increased market share post-uncertainty. **Position your organization for growth** by preparing for future opportunities.
- **Take a proactive approach by targeting high-quality assets and locations**. As the availability of premium options becomes limited and uncertainty fades, it will become an increasingly competitive market.
- **Re-evaluate and re-assess your real estate strategy** in alignment with your business outlook. Determine your organization's risk profile and tailor your approach accordingly to optimize space utilization.
- **Prepare for more expensive construction fit-outs in the immediate term**, and fewer new construction options in one or two years.

Investors

Focus on the investment horizon: Prioritize long-term real estate investments, as consistent value appreciation typically occurs over time. Secular themes are still relevant.

Take advantage of market volatility: Overlook short-term market fluctuations and strategically acquire assets from sellers motivated by uncertainty.

Interest rates are unlikely to return to pre-pandemic levels: Seize opportunities when long-term debt dips below historical averages and strategically allocate capital.

Capitalize on short-term rate movements: Central banks are likely to continue normalizing rates, with more cuts if economic conditions weaken. Leverage these changes to optimize your investment strategy.

Consider CRE as a hedge: During periods of uncertainty, especially with higher inflation, real income-producing assets are favored.

CRE subtypes matter: CRE has a myriad of necessity-based asset classes (residential, grocery-anchored retail, healthcare) that often outperform during weaker growth environments.

Re-assess investment strategy: Evaluate your risk profile and begin executing an updated strategy tailored to current market conditions.

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